

CITY OF WHITEWOOD  
WHITEWOOD, SOUTH DAKOTA

---

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2009

# CITY OF WHITEWOOD

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Whitewood  
Whitewood, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, and each major fund of the **CITY OF WHITEWOOD** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 10, and the required supplementary budgetary information on pages 37 through 41, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KETEL THORSTENSON, LLP  
Certified Public Accountants

December 15, 2010

## **CITY OF WHITEWOOD**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2009**

This section of the City of Whitewood (the City) annual financial report presents our discussion and analysis of the City's financial performance during the years ended December 31, 2009. Please read it in conjunction with the City's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

The City's net assets from governmental and business-type activities decreased by \$27,847 for the year ended December 31, 2009. This decrease was primarily due to a decrease in grant revenue in 2009 and to an overall decrease in sales tax and proprietary fund revenues in 2009.

During the year ended December 31, 2009, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs was \$851,062, \$40,870 more than the \$810,192 of governmental program expenditures, before transfers.

The City's proprietary funds expenses exceeded revenue by \$68,717 before transfers for the year ended December 31, 2009. This decrease in change in net assets was due to fewer capital contributions in 2009.

For the year ended December 31, 2009, the general fund reported a decrease in fund balance of \$201,987, primarily due to a decrease in sales tax and the expense of repairs to streets from flooding.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has two proprietary funds – the Water Fund and Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**CITY OF WHITEWOOD**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2009**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

	<b>Government-wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<b>Scope</b>	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems
<b>Required Financial Statements</b>	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## **CITY OF WHITEWOOD**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

##### Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health or position.

Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City you need to consider additional nonfinancial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

**Governmental Activities** -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.

**Business-Type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems are included here.

##### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

**Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

**Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

**CITY OF WHITEWOOD**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2009**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

Net Assets

The City's combined net assets decreased by 1 percent between 2008 and 2009 – decreasing by \$27,847.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The difference between the City's assets and liabilities is its net assets.

Table A-1

Statement of Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2009	2008	2009	2008	2009
Current & Other Assets	\$ 903,189	\$ 817,836	\$ 605,029	\$ 475,087	\$1,508,218	\$ 1,292,923
Capital Assets	983,245	1,048,017	3,372,499	3,291,158	4,355,744	4,339,175
Total Assets	\$1,886,434	\$ 1,865,853	\$3,977,528	\$ 3,766,245	\$5,863,962	\$ 5,632,098
Long-Term Debt	\$ 534,811	\$ 477,898	\$1,073,320	\$ 1,055,531	\$1,608,131	\$ 1,533,429
Other Liabilities	33,128	27,264	185,727	62,276	218,855	89,540
Total Liabilities	\$ 567,939	\$ 505,162	\$1,259,047	\$ 1,117,807	\$1,826,986	\$ 1,622,969
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 451,710	\$ 577,541	\$2,300,379	\$ 2,239,219	\$2,752,089	\$ 2,816,760
Restricted	96,850	81,561	46,581	65,807	143,431	147,368
Unrestricted	769,935	701,589	371,521	343,412	1,141,456	1,045,001
Total Net Assets	\$1,318,495	\$ 1,360,691	\$2,718,481	\$ 2,648,438	\$4,036,976	\$ 4,009,129
Beginning Net Assets	\$1,212,385	\$ 1,318,495	\$2,180,520	\$ 2,718,481	\$3,392,905	\$ 4,036,976
Change in Net Assets	106,110	42,196	537,961	(70,043)	644,071	(27,847)
Percentage of Change						
Net Assets	8.75%	3.20%	24.67%	-2.58%	18.98%	-0.69%

Changes in Net Assets

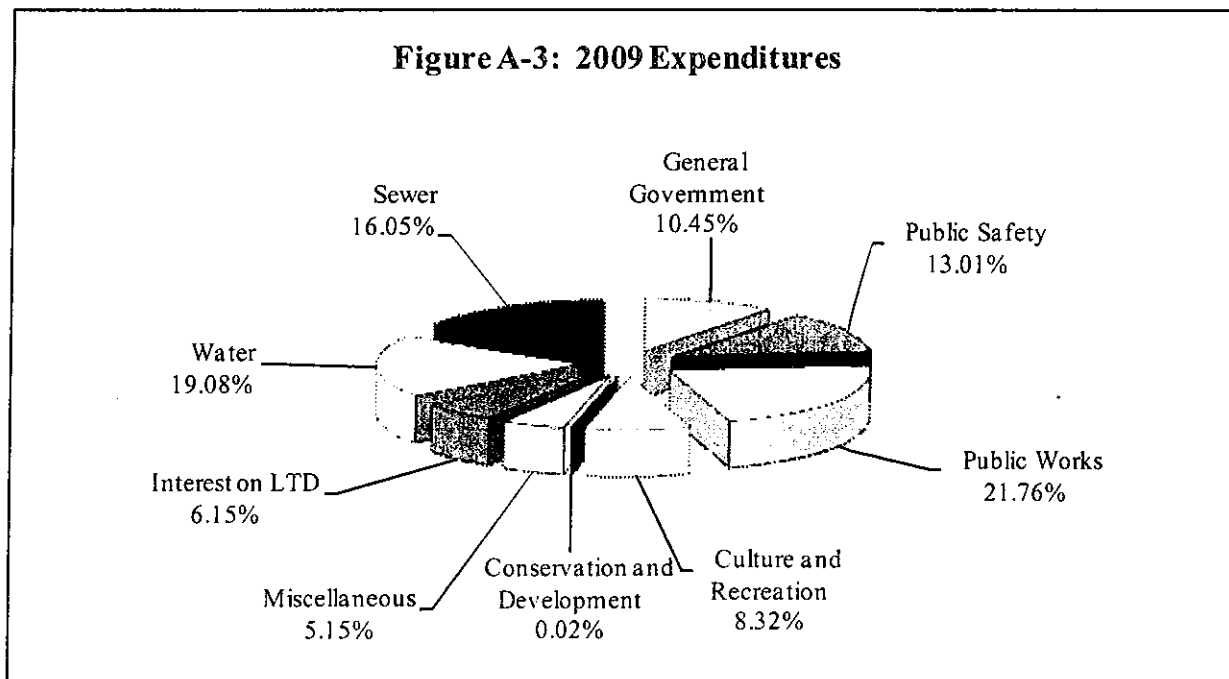
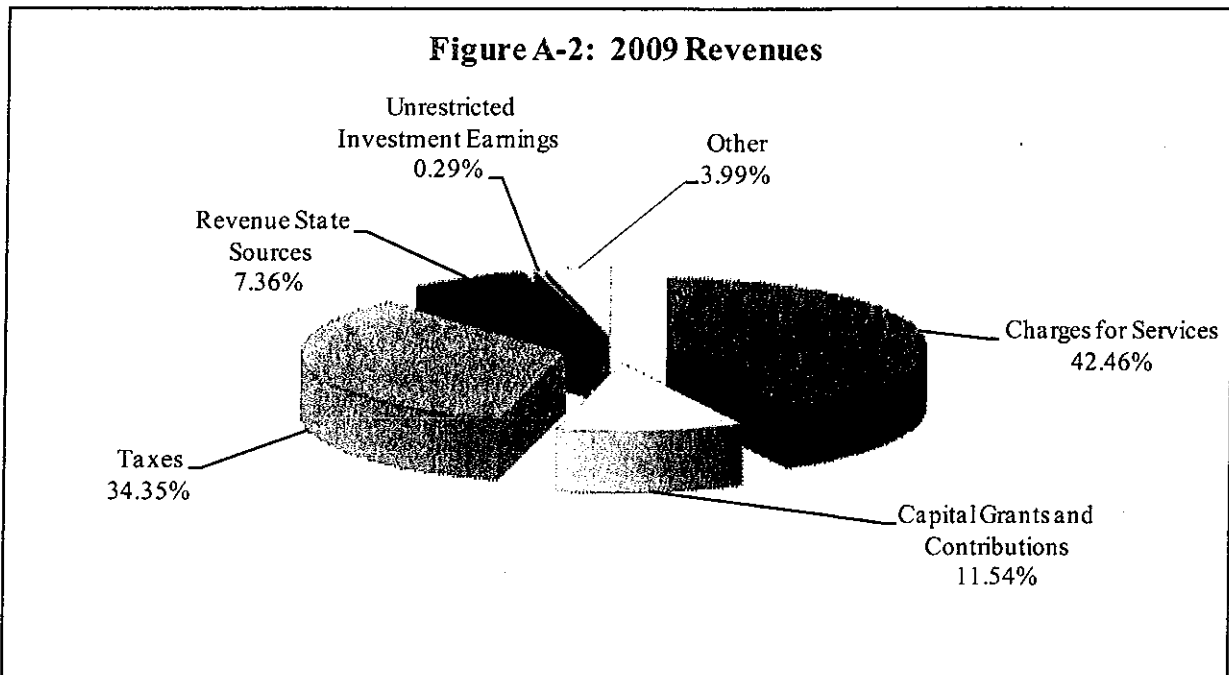
The City's revenues (excluding transfers and gain on capital assets) totaled \$1,221,113 for the year ended December 31, 2009. (See Table A-2). The total cost of all programs and services increased for the year ended December 31, 2009. The City's expenses cover a range of services, with over 45 percent related to public works, public safety, and general government. (See Figure A-3)

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)





**CITY OF WHITEWOOD**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2009**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

Change in Net Assets (Concluded)

Table A-2

	<b>Total Governmental Activities</b>		<b>Total Business-type Activities</b>		<b>Grand Total</b>	
	2008	2009	2008	2009	2008	2009
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 172,686	\$ 161,419	\$ 341,229	\$ 357,075	\$ 513,915	\$ 518,494
Capital Grants and Contributions	43,247	129,261	566,326	11,650	609,573	140,911
<i>General Revenues</i>						
Taxes	469,289	419,483	-	-	469,289	419,483
Revenue State Sources	27,034	89,896	-	-	27,034	89,896
Unrestricted Investment Earnings	15,217	2,251	8,593	1,326	23,810	3,577
Other	12,074	48,752	-	-	12,074	48,752
<b>Total Revenues</b>	<b>739,547</b>	<b>851,062</b>	<b>916,148</b>	<b>370,051</b>	<b>1,655,695</b>	<b>1,221,113</b>
<b>Expenses</b>						
General Government	114,455	130,493	-	-	114,455	130,493
Public Safety	156,712	162,543	-	-	156,712	162,543
Public Works	152,675	271,725	-	-	152,675	271,725
Culture and Recreation	114,044	103,963	-	-	114,044	103,963
Conservation and Development	586	300	-	-	586	300
Interest on Long-Term Debt	34,843	76,813	-	-	34,843	76,813
Miscellaneous	71,016	64,355	-	-	71,016	64,355
Water Services	-	-	192,518	238,267	192,518	238,267
Sewer Services	-	-	174,775	200,501	174,775	200,501
<b>Total Expenses</b>	<b>644,331</b>	<b>810,192</b>	<b>367,293</b>	<b>438,768</b>	<b>1,011,624</b>	<b>1,248,960</b>
<b>Excess Revenues</b>						
<b>Before Transfers</b>	<b>95,216</b>	<b>40,870</b>	<b>548,855</b>	<b>(68,717)</b>	<b>644,071</b>	<b>(27,847)</b>
Transfers	10,894	1,326	(10,894)	(1,326)	-	-
<b>Increase in Net Assets</b>	<b>\$ 106,110</b>	<b>\$ 42,196</b>	<b>\$ 537,961</b>	<b>\$ (70,043)</b>	<b>\$ 644,071</b>	<b>\$ (27,847)</b>
<b>Ending Net Assets</b>	<b>\$ 1,318,495</b>	<b>\$ 1,360,691</b>	<b>\$ 2,718,481</b>	<b>\$ 2,648,438</b>	<b>\$ 4,036,976</b>	<b>\$ 4,009,129</b>

## **CITY OF WHITEWOOD**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2009**

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)**

##### Governmental Activities

During 2009, revenues of the City's governmental activities exceeded expenses by \$42,196. This is a decrease over the prior year due to less sales tax revenue and higher expenses.

##### Business-type Activities

During 2009, expenses of the City's business-type activities exceeded revenues by \$70,043. This decrease was due primarily to a \$554,676 decrease in capital grants received during 2009.

#### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and two business-type funds. Most of the City's funds had some gain during the year.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the City Council revised the City budget several times. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

A supplemental appropriation was made for the year ending December 31, 2009 for unforeseen expenses in the General Fund as a result of flooding repairs and clean up.

The general fund budget for 2009 was \$825,955 and the actual amount spent was \$767,735 which resulted in a difference of \$58,220, this additional savings is the elected officials and the departments being fiscally responsible for the budget line items.

**CITY OF WHITEWOOD**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2009**

**CAPITAL ASSET ADMINISTRATION**

The City had invested in a broad range of capital assets at December 31, 2009 and 2008, respectively, including land, buildings, various machinery and equipment. (See Table A-3)

Table A-3

<b>Capital Assets (Net of Depreciation)</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2008	2009	2008	2009
Land	\$ 20,200	\$ 20,200	\$ 23,253	\$ 23,253
Buildings	151,500	147,320	820,304	764,686
Improvements	721,563	798,750	2,495,937	2,431,291
Machinery and Equipment	89,982	81,747	33,005	25,339
Construction Work in Progress	-	-	-	46,589
<b>Totals</b>	<b>\$ 983,245</b>	<b>\$ 1,048,017</b>	<b>\$ 3,372,499</b>	<b>\$ 3,291,158</b>

The 2009 major governmental capital asset additions included \$12,500 for a police vehicle and \$8,759 for library books.

There were no major business-type additions in 2009.

**LONG-TERM DEBT**

At December 31, 2009 and 2008, the City had \$1,533,429 and \$1,608,131, respectively, in long-term debt.

<b>Outstanding Debt and Obligations</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2008	2009	2008	2009
Sales Tax Revenue Bonds	\$ 202,651	\$ 180,165	\$ -	\$ -
Tax Incremental District #1	189,282	171,455	-	-
Special Assessment Bonds	139,602	118,856	-	-
Compensated Absences	3,276	7,422	1,200	3,592
Water Revenue Bonds	-	-	903,000	894,690
State Revolving Fund Loans	-	-	138,382	130,195
Rural Development Loan	-	-	30,738	27,054
<b>Total</b>	<b>\$ 534,811</b>	<b>\$ 477,898</b>	<b>\$ 1,073,320</b>	<b>\$ 1,055,531</b>

## **CITY OF WHITEWOOD**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2009**

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

For the year ended December 31, 2009, the City experienced an increase in total property valuation of \$3,738,513. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$17,098 for the year ended December 31, 2009. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The city experienced a decrease in taxable sales of 10 percent during 2009 and has budgeted for an increase in sales tax revenue for 2010.

The City's adopted General Fund budget for 2010 will be \$619,415. The largest portion of this decrease is reduction in costs for street repairs from floods offset by an increase in purchases of new City equipment in 2010.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Whitewood Finance Office, 625 Fifth Street, Whitewood, SD 57783.

**CITY OF WHITEWOOD**

**STATEMENT OF NET ASSETS**

**DECEMBER 31, 2009**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>Assets:</b>			
Cash and Investments (Note 2)	\$ 529,857	\$ 219,763	\$ 749,620
Accounts Receivable	261,011	45,932	306,943
Restricted Investments	14,718	200,588	215,306
Deferred Charges, Net of Amortization	-	8,804	8,804
Deposit	12,250	-	12,250
Capital Assets (Note 7):			
Land and Construction in Progress	20,200	69,842	90,042
Other Capital Assets, Net of Depreciation	1,027,817	3,221,316	4,249,133
<b>TOTAL ASSETS</b>	<b>\$ 1,865,853</b>	<b>\$ 3,766,245</b>	<b>\$ 5,632,098</b>
<b>Liabilities:</b>			
Accounts Payable	\$ 18,174	\$ 30,010	\$ 48,184
Other Current Liabilities	9,090	32,266	41,356
Noncurrent Liabilities (Note 5):			
Due Within One Year	86,973	25,382	112,355
Due in More Than One Year	390,925	1,030,149	1,421,074
<b>TOTAL LIABILITIES</b>	<b>505,162</b>	<b>1,117,807</b>	<b>1,622,969</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	577,541	2,239,219	2,816,760
Restricted for:			
Debt Service	69,311	65,807	135,118
Deposit - SDPAA (Note 10)	12,250	-	12,250
Unrestricted	701,589	343,412	1,045,001
<b>TOTAL NET ASSETS</b>	<b>1,360,691</b>	<b>2,648,438</b>	<b>4,009,129</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,865,853</b>	<b>\$ 3,766,245</b>	<b>\$ 5,632,098</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF WHITEWOOD**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>--- Program Revenues ---</u>		<u>Net (Expense) Revenue and</u>		<u>Total</u>
		<u>Charges</u>	<u>Capital</u>	<u>Governmental</u>	<u>Business-Type</u>	
		<u>for Services</u>	<u>Contributions</u>	<u>Activities</u>	<u>Activities</u>	
<b>Primary Government</b>						
<b>Governmental Activities:</b>						
General Government	\$ 130,493	\$ 4,006	\$ -	\$ (126,487)	\$ -	\$ (126,487)
Public Safety	162,543	545	-	(161,998)	-	(161,998)
Public Works	271,725	59,625	129,261	(82,839)	-	(82,839)
Culture and Recreation	103,963	2,103	-	(101,860)	-	(101,860)
Conservation and Development	300	-	-	(300)	-	(300)
Miscellaneous	64,355	95,140	-	30,785	-	30,785
Interest on Long Term Debt	76,813	-	-	(76,813)	-	(76,813)
<b>Total Governmental Activities</b>	<b>810,192</b>	<b>161,419</b>	<b>129,261</b>	<b>(519,512)</b>	<b>-</b>	<b>(519,512)</b>
<b>Business-Type Activities:</b>						
Water	238,267	194,581	3,650	-	(40,036)	(40,036)
Sewer	200,501	162,494	8,000	-	(30,007)	(30,007)
<b>Total Business-Type Activities</b>	<b>438,768</b>	<b>357,075</b>	<b>11,650</b>	<b>-</b>	<b>(70,043)</b>	<b>(70,043)</b>
<b>Total Primary Government</b>	<b>\$ 1,248,960</b>	<b>\$ 518,494</b>	<b>\$ 140,911</b>	<b>(519,512)</b>	<b>(70,043)</b>	<b>(589,555)</b>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Property Taxes				236,698	-	236,698
Sales Taxes				182,785	-	182,785
State Shared Revenue				89,896	-	89,896
Grants and Contributions Not Restricted				15,246	-	15,246
Unrestricted Investment Earnings				2,251	1,326	3,577
Miscellaneous Revenue				33,506	-	33,506
Transfers				1,326	(1,326)	-
<b>Total General Revenue and Transfers</b>				<b>561,708</b>	<b>-</b>	<b>561,708</b>
<b>Change in Net Assets</b>				<b>42,196</b>	<b>(70,043)</b>	<b>(27,847)</b>
<b>Net Assets, Beginning</b>				<b>1,318,495</b>	<b>2,718,481</b>	<b>4,036,976</b>
<b>Net Assets, Ending</b>				<b>\$ 1,360,691</b>	<b>\$ 2,648,438</b>	<b>\$ 4,009,129</b>

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009

	General	Library	Additional	Economic	Special	Tax Increment	Total
	Fund	Fund	Sales Tax	Development	Assessment	District #1 -	Governmental
	Fund	Fund	Fund	Fund	Debt	Debt Service	Funds
	Fund	Fund	Fund	Fund	Service	Fund	Funds
<b>Assets</b>							
101 Cash and Investments (Note 2)	\$ 204,723	\$ 35,505	\$ 62,326	\$ 173,334	\$ 53,969	\$ -	\$ 529,857
107 Restricted Investments (Note 2)	14,718	-	-	-	-	-	14,718
108 Property Taxes Receivable	21,954	-	-	-	-	-	21,954
110 Sales Taxes Receivable	-	-	555	-	-	-	555
115 Accounts Receivable	18,783	-	-	-	-	624	19,407
121 Special Assessments Receivable	-	-	-	-	53,700	-	53,700
128 Loan Receivable - West River Foundation	-	-	-	40,000	-	-	40,000
132 Due from Governments	125,395	-	-	-	-	-	125,395
154 Deposit - SDPAA (Note 10)	12,250	-	-	-	-	-	12,250
<b>Total Assets</b>	<b>\$ 397,823</b>	<b>\$ 35,505</b>	<b>\$ 62,881</b>	<b>\$ 213,334</b>	<b>\$ 107,669</b>	<b>\$ 624</b>	<b>\$ 817,836</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
202 Accounts Payable	\$ 17,900	\$ 274	\$ -	\$ -	\$ -	\$ -	\$ 18,174
216 Accrued Wages Payable	4,925	715	-	-	-	-	5,640
220 Customer Deposits	3,450	-	-	-	-	-	3,450
224 Deferred Revenue (Note 3)	136,389	-	-	-	53,700	-	190,089
<b>Total Liabilities</b>	<b>162,664</b>	<b>989</b>	<b>-</b>	<b>-</b>	<b>53,700</b>	<b>-</b>	<b>217,353</b>
<b>Fund Balances</b>							
261 <i>Reserved Fund Balances</i>							
261.04 Reserved for Debt Service	14,718	-	-	-	-	624	15,342
261.16 Reserved for Loan Receivable - West River Foundation	-	-	-	40,000	-	-	40,000
261.16 Reserved for Deposit - SDPAA	12,250	-	-	-	-	-	12,250
262 <i>Unreserved Fund Balances</i>							
262.02 Designated - Memorial Park	2,916	-	-	-	-	-	2,916
262.03 Designated - Capital Outlay	-	20,000	-	-	-	-	20,000
262.09 Undesignated	205,275	14,516	62,881	173,334	53,969	-	509,975
<b>Total Fund Balances</b>	<b>235,159</b>	<b>34,516</b>	<b>62,881</b>	<b>213,334</b>	<b>53,969</b>	<b>624</b>	<b>600,483</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 397,823</b>	<b>\$ 35,505</b>	<b>\$ 62,881</b>	<b>\$ 213,334</b>	<b>\$ 107,669</b>	<b>\$ 624</b>	<b>\$ 817,836</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF WHITEWOOD**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2009**

Total Fund Balances - Governmental Funds	\$ 600,483
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Amounts reported for governmental activities in the Statement  
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,048,017
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Long-term liabilities, including bonds payable, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(477,898)
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Assets, such as delinquent taxes receivable, special assessments receivable and due from governments, are not available to pay for current period expenditures and therefore are deferred in the funds.	190,089
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<b>Total Net Assets - Governmental Funds</b>	<b>\$ 1,360,691</b>
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The accompanying notes are an integral part of the financial statements.



**Tax Increment**

<b>District #1 -</b>	<b>Total</b>
<b>Debt Service</b>	<b>Governmental</b>
<b><u>Fund</u></b>	<b><u>Funds</u></b>

\$ 76,459	\$ 229,257
-	182,785
-	168
-	849
-	4,006
-	61,320
-	586
-	5,129
-	5,912
-	7,726
-	22,861
-	819
-	37,032
-	210
-	2,103
-	8,136
-	300
-	35
-	2,251
-	14,606
-	15,246
-	95,140
-	31,869
<u>76,459</u>	<u>728,346</u>

<b>Tax Increment</b>	
<b>District #1 -</b>	<b>Total</b>
<b>Debt Service</b>	<b>Governmental</b>
<b><u>Fund</u></b>	<b><u>Funds</u></b>

-	61,784
-	3,935
-	9
-	44,262
-	20,503

-	149,903
-	80
-	5,497

-	209,672
-	35,431

-	31,330
-	57,788

-	300
79,227	137,872
-	109,156

-	64,355
79,227	931,877

-	1,637
-	2,137
-	(811)

-	2,963
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(2,768)	(200,568)
---------	-----------

3,392	801,051
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\$ 624	\$ 600,483
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**CITY OF WHITEWOOD**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

Net change in fund balances - total governmental funds \$ (200,568)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

This amount represents capital asset purchases which are reported as expenditures on the fund financial statements, but increase assets on the government-wide statements. 109,156

This amount represents the current year depreciation expense reported in the statement of activities, which is not reported on the fund financial statements because it does not require the use of current financial resources. (44,384)

The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available." 6,424

Governmental funds report special assessments as revenue when available, but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises. (10,740)

Governmental funds report due from governments as revenue when available, but the statement of activities includes the due from governments upon expenditure of allowable costs. 125,395

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 61,059

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. (4,146)

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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 42,196</b>
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The accompanying notes are an integral part of the financial statements.

**CITY OF WHITEWOOD**

**BALANCE SHEET  
PROPRIETARY FUNDS  
DECEMBER 31, 2009**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
<b>Assets</b>			
<b>Current Assets</b>			
101 Cash and Investments (Note 2)	\$ 197,494	\$ 22,269	\$ 219,763
107 Restricted Cash and Investments (Note 2)	162,042	38,546	200,588
115 Accounts Receivable	15,120	13,400	28,520
117 Unbilled Accounts Receivable	4,989	4,423	9,412
132 Due from Other Government - Grant	-	8,000	8,000
159 Deferred Charges	9,030	-	9,030
191 Accumulated Amortization	(226)	-	(226)
<b>Total Current Assets</b>	<b>388,449</b>	<b>86,638</b>	<b>475,087</b>
<b>Capital Assets (Note 7)</b>			
160 Land	-	23,253	23,253
162 Buildings	664,728	845,641	1,510,369
163 Accumulated Depreciation - Buildings	(88,504)	(657,179)	(745,683)
164 Improvements Other Than Buildings	2,299,908	867,114	3,167,022
165 Accumulated Depreciation - Improvements Other than Buildings	(432,949)	(302,782)	(735,731)
166 Machinery and Equipment	74,105	38,893	112,998
167 Accumulated Depreciation - Machinery and Equipment	(59,717)	(27,942)	(87,659)
168 Construction Work in Progress	9,877	36,712	46,589
<b>Total Capital Assets, Net</b>	<b>2,467,448</b>	<b>823,710</b>	<b>3,291,158</b>
<b>Total Assets</b>	<b>\$ 2,855,897</b>	<b>\$ 910,348</b>	<b>\$ 3,766,245</b>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
202 Accounts Payable	\$ 11,931	\$ 18,079	\$ 30,010
205 Current Portion of Long-Term Debt (Note 5)	9,346	12,444	21,790
215 Accrued Interest Payable	2,252	-	2,252
216 Accrued Wages Payable	2,278	2,156	4,434
220 Customer Deposits	15,380	10,200	25,580
233 Accrued Leave Payable (Note 5)	1,852	1,740	3,592
<b>Total Current Liabilities</b>	<b>43,039</b>	<b>44,619</b>	<b>87,658</b>
<b>Long-Term Liabilities</b>			
237 Long-Term Debt, Net of Current Portion (Note 5)	885,346	144,803	1,030,149
<b>Total Liabilities</b>	<b>928,385</b>	<b>189,422</b>	<b>1,117,807</b>
<b>Net Assets</b>			
253.1 Invested in Capital Assets, Net of Related Debt	1,572,756	666,463	2,239,219
253.2 Restricted for Debt Service	60,851	4,956	65,807
252.0 Unrestricted Net Assets	293,905	49,507	343,412
<b>Total Net Assets</b>	<b>1,927,512</b>	<b>720,926</b>	<b>2,648,438</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,855,897</b>	<b>\$ 910,348</b>	<b>\$ 3,766,245</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF WHITEWOOD**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b><u>Water Fund</u></b>	<b><u>Sewer Fund</u></b>	<b><u>Total Proprietary Funds</u></b>
<b>Operating Revenue</b>			
380 Charges for Goods and Services:			
Security for Revenue Bonds	\$ 194,019	\$ 162,494	\$ 356,513
381 Other	562	-	562
<b>Total Operating Revenue</b>	<b>194,581</b>	<b>162,494</b>	<b>357,075</b>
<b>Operating Expenses</b>			
410 Personal Services	70,532	69,868	140,400
420 Other Current Expense	63,357	59,482	122,839
453 Amortization	226	-	226
457 Depreciation	64,818	63,112	127,930
<b>Total Operating Expenses</b>	<b>198,933</b>	<b>192,462</b>	<b>391,395</b>
<b>Operating Loss</b>	<b>(4,352)</b>	<b>(29,968)</b>	<b>(34,320)</b>
<b>Non-Operating Income (Expense)</b>			
361 Earnings on Deposits and Investments	1,093	233	1,326
470 Interest Expense and Fiscal Charges	(39,334)	(8,039)	(47,373)
<b>Total Non-Operating Expense</b>	<b>(38,241)</b>	<b>(7,806)</b>	<b>(46,047)</b>
<b>Loss Before Contributions and Transfers</b>	<b>(42,593)</b>	<b>(37,774)</b>	<b>(80,367)</b>
<b>Other Financing Sources (Uses)</b>			
331 Capital Grant	3,650	8,000	11,650
511 Transfers Out (Note 6)	(1,093)	(233)	(1,326)
<b>Total Other Financing Sources</b>	<b>2,557</b>	<b>7,767</b>	<b>10,324</b>
<b>Net Loss</b>	<b>(40,036)</b>	<b>(30,007)</b>	<b>(70,043)</b>
<b>Net Assets - December 31, 2008</b>	<b>1,967,548</b>	<b>750,933</b>	<b>2,718,481</b>
<b>Net Assets - December 31, 2009</b>	<b>\$ 1,927,512</b>	<b>\$ 720,926</b>	<b>\$ 2,648,438</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF WHITEWOOD**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total Proprietary Funds</b>
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 194,179	\$ 159,285	\$ 353,464
Payments to Suppliers	(53,965)	(53,079)	(107,044)
Payments to Employees	(70,402)	(69,779)	(140,181)
<b>Net Cash Flows Provided by Operating Activities</b>	<b>69,812</b>	<b>36,427</b>	<b>106,239</b>
<b>Cash Flows Used in Noncapital Financing Activities:</b>			
Transfers Out	(1,093)	(233)	(1,326)
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Purchase of Capital Assets	(9,877)	(26,720)	(36,597)
Principal Paid on Capital Debt	(8,308)	(11,873)	(20,181)
Accounts Payable Paid on Purchase of Capital Assets	(110,951)	-	(110,951)
Capital Grants	114,601	-	114,601
Interest Paid	(74,856)	(8,039)	(82,895)
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(89,391)</b>	<b>(46,632)</b>	<b>(136,023)</b>
<b>Cash Flows Provided by Investing Activities:</b>			
Interest Earned	1,093	233	1,326
<b>Decrease in Cash and Cash Equivalents</b>	<b>(19,579)</b>	<b>(10,205)</b>	<b>(29,784)</b>
<b>Cash and Cash Equivalents - December 31, 2008</b>	<b>379,115</b>	<b>71,020</b>	<b>450,135</b>
<b>Cash and Cash Equivalents - December 31, 2009</b>	<b>\$ 359,536</b>	<b>\$ 60,815</b>	<b>\$ 420,351</b>
<b>Reconciliation of Operating Loss to Net Cash Flows Provided by Operating Activities</b>			
Operating Loss	\$ (4,352)	\$ (29,968)	\$ (34,320)
<i>Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	64,818	63,112	127,930
Amortization Expense	226	-	226
<b>Change in Assets and Liabilities:</b>			
Accounts Receivable	534	(3,553)	(3,019)
Accounts Payable	9,392	6,403	15,795
Accrued Wages Payable	(1,118)	(1,055)	(2,173)
Customer Deposits	(936)	344	(592)
Accrued Leave Payable	1,248	1,144	2,392
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 69,812</b>	<b>\$ 36,427</b>	<b>\$ 106,239</b>
<b>Noncash Capital and Related Financing Activities</b>			
Capital Grants Receivable	\$ -	\$ 8,000	\$ 8,000
Purchase of Capital Assets Included in Accounts Payable	-	9,992	9,992

The accompanying notes are an integral part of the financial statements.

## **CITY OF WHITEWOOD**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009**

#### **(1) Summary of Significant Accounting Policies**

##### **a. Reporting Entity**

The reporting entity of the City of Whitewood (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 9 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

##### **b. Basis of Presentation**

###### *Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

###### *Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

## CITY OF WHITEWOOD

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

#### (1) Summary of Significant Accounting Policies (Continued)

##### b. Basis of Presentation (Continued)

###### *Fund Financial Statements (Continued):*

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity are described below:

###### Governmental Funds:

General Fund – the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund – to account for the fines and similar charges deposited into the library board bank account. (SDCL 14-2-42) This fund is a major fund.

Additional Sales Tax Fund – to account for an additional one percent gross receipts tax which may be used only for acquisition of land, capital improvement, and promotion of the City. This fund is a major fund.

Economic Development Fund – to account for the CDBG monies received in 1991. The money is used to create revolving loans for economic development purposes. This fund is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Special Assessment Debt Service Fund - to account for assessment payments from property owners which are used only for the payment of the Special Assessment debt principal, interest, and related cost. This fund is a major fund.

Tax Incremental District #1 Debt Service Fund -- to account for the property tax revenue received on the tax increment district to finance debt service and capital construction related to infrastructure improvement made within the tax increment district. This fund is a major fund.



## CITY OF WHITEWOOD

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

#### (1) Summary of Significant Accounting Policies (Continued)

##### b. Basis of Presentation (Concluded)

###### *Fund Financial Statements (Concluded):*

###### Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Sewer Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

##### c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

###### *Measurement Focus:*

###### Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

###### Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

## CITY OF WHITEWOOD

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009

#### (1) Summary of Significant Accounting Policies (Continued)

##### c. Measurement Focus and Basis of Accounting (Continued)

###### *Basis of Accounting*

###### Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

###### Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Whitewood, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2009 are property and sales tax receivable, and special assessments receivable.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. There are no significant inter-fund utility charges.

##### d. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

###### Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

**CITY OF WHITEWOOD**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2009**

**(1) Summary of Significant Accounting Policies (Continued)**

**d. Capital Assets (Continued)**

Government-wide Financial Statements: (Continued)

Approximately 10 percent of the total December 31, 2004, balance of the governmental activities and business-type capital assets included costs that were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other than Buildings."

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction period interest for capital assets used in business-type activities/proprietary fund's operations, is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ -0-	-----N/A-----	-----N/A-----
Improvements Other Than Buildings	\$ 10,000	Straight-line	15-75 years
Buildings	\$ -0-	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

## **CITY OF WHITEWOOD**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009**

#### **(1) Summary of Significant Accounting Policies (Continued)**

##### **e. Long-Term Liabilities**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of sales tax and water revenue bonds, state revolving loan funds, special assessment debt, Rural Development loans and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund and the government-wide financial statements.

##### **f. Program Revenues**

Program revenues are derived directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

##### **g. Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

##### **h. Cash and Cash Equivalents**

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

## **CITY OF WHITEWOOD**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2009**

#### **(1) Summary of Significant Accounting Policies (Concluded)**

##### **i. Equity Classifications**

###### Government-wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

###### Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Reserved” and “Unreserved” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

##### **j. Application of Net Assets**

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City’s policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

##### **k. Inventory**

The City maintains no significant amounts of inventory at December 31, 2009.

#### **(2) Deposits and Investments**

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

**CITY OF WHITEWOOD**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2009**

**(2) Deposits and Investments (Continued)**

Investments — In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Investments of the City consist of the following:

	Credit Rating	Maturity	Fair Value at 12/31/2009
WF Advantage Government Money Market	A	N/A	\$ 211,627
U.S. Government Securities:			
United States Treasury Note	AAA	1-6 years	39,485
Federal National Mortgage Association Notes	AAA	5 - 30 years	112,283
External Investment Pools:			
SDFIT	Unrated		361,794
<b>Total Investments</b>			<b>\$ 725,189</b>

*Credit Risk:*

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2009, the City's investment in SDFIT pool was unrated.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, City districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

*Custodial Credit Risk:*

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2009, none of the City's deposits were exposed to custodial credit risk.

*Interest Rate Risk:*

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2009

(2) Deposits and Investments (Concluded)

*Assignment of Investment Income:*

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the general fund for spending purposes, except for the library fund.

(3) Deferred Revenue

Under the modified-accrual basis of accounting, receivables may be measurable but not available. Receivables are considered available if they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are deferred when the asset recognition criteria have been met, but the revenue recognition criteria have not been met. Deferred revenues consist primarily of delinquent property taxes receivable and special assessments receivable.

(4) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

(5) Long-Term Debt

	Balance 1/1/2009	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2009	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Sales Tax Revenue Bonds	\$ 202,651	\$ -	\$ 22,486	\$ 180,165	\$ 5,852
Tax Incremental District #1	189,282	-	17,827	171,455	52,003
Special Assessment Bonds	139,602	-	20,746	118,856	21,696
Compensated Absences	3,276	7,949	3,803	7,422	7,422
<b>Total Governmental Activities</b>	<b>534,811</b>	<b>7,949</b>	<b>64,862</b>	<b>477,898</b>	<b>86,973</b>
<b>Business-type Activities:</b>					
Water Revenue Bonds	903,000	-	8,308	894,692	9,346
State Revolving Fund Loans	138,382	-	8,187	130,195	8,605
Rural Development Loan	30,738	-	3,686	27,052	3,839
Compensated Absences	1,200	2,509	117	3,592	3,592
<b>Total Business-Type Activities</b>	<b>1,073,320</b>	<b>2,509</b>	<b>20,298</b>	<b>1,055,531</b>	<b>25,382</b>
<b>Total Primary Government</b>	<b>\$ 1,608,131</b>	<b>\$ 10,458</b>	<b>\$ 85,160</b>	<b>\$ 1,533,429</b>	<b>\$ 112,355</b>

**CITY OF WHITEWOOD**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2009**

**(5) Long-Term Debt (Continued)**

Long-term debt at December 31, is comprised of the following:

	<u>2009</u>
<i>Revenue Bonds</i>	
Rural Development Water Revenue Bonds, Series 2007; bears interest at 4.375 percent; due in monthly installments of \$4,028 through January 2048. Financed through the Water Fund.	\$ 894,692
Sales Tax Revenue Bond, Series 2004; bears interest at 4.375 percent; due in monthly installments of \$1,267 through June 2044. Financed through the General Fund.	180,165
<i>Special Assessments:</i>	
Special Assessment Bond, Series 2004; bears interest at 4.57 percent; due in annual installments of \$27,127 through June 2014. Financed through the Debt Service Fund.	118,856
<i>Tax Incremental Financing Notes:</i>	
Tax Incremental District #1; bears interest at 8 percent; due in varying installments within 30 days of property tax collection from the county. Repayment is limited to incremental property taxes collected. Financed through the TIF #1 Debt Service Fund.	171,455
<i>State Revolving Fund Revenue Bonds:</i>	
State Revolving Fund Revenue Bonds, 2001; bears interest at 5 percent; due in quarterly installments of \$3,739 through July 2021. Financed through the Sewer Fund.	130,195
<i>Loan:</i>	
Rural Development Loan, 2006; bears interest at 4.375 percent; due in monthly installments of \$413 through April 2016. Financed through the Sewer Fund.	27,052
	<u>1,522,415</u>
<i>Compensated Absences</i>	
General Fund	6,361
Library Fund	1,061
Water Fund	1,852
Sewer Fund	1,740
Total Compensated Absences	<u>11,014</u>
<b>Total Long-Term Debt</b>	<b>\$ 1,533,429</b>



CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2009

(5) Long-Term Debt (Continued)

The annual requirements to amortize long-term debt outstanding as of December 31, 2009, except for compensated absences are as follows:

	Revenue Bonds		Special Assessments		TID #1	
	Interest	Principal	Interest	Principal	Interest	Principal
2010	\$ 47,856	\$ 15,198	\$ 5,432	\$ 21,696	\$ 10,409	\$ 52,003
2011	46,199	16,853	4,440	22,687	8,212	67,912
2012	45,561	17,493	3,403	23,724	2,047	51,540
2013	44,679	18,376	2,319	24,808	-	-
2014	43,865	19,189	1,186	25,941	-	-
2015-2019	184,566	130,704	-	-	-	-
2020-2024	166,234	149,036	-	-	-	-
2025-2029	143,811	104,662	-	-	-	-
2030-2034	119,566	122,114	-	-	-	-
2035-2039	89,756	151,924	-	-	-	-
2040-2044	52,688	188,992	-	-	-	-
2045-2048	10,124	140,314	-	-	-	-
Total	\$ 994,905	\$ 1,074,855	\$ 16,780	\$ 118,856	\$ 20,668	\$ 171,455

	State Revolving		Loan		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2010	\$ 6,456	\$ 8,605	\$ 1,117	\$ 3,839	\$ 71,270	\$ 101,341
2011	6,123	8,932	946	4,010	65,920	120,394
2012	5,568	9,387	766	4,190	57,345	106,334
2013	5,090	9,865	579	4,377	52,667	57,426
2014	4,588	10,368	384	4,572	50,023	60,070
2015-2019	14,456	60,319	543	6,066	199,565	197,089
2020-2024	1,261	22,719	-	-	167,495	171,755
2025-2029	-	-	-	-	143,811	104,662
2030-2034	-	-	-	-	119,566	122,114
2035-2039	-	-	-	-	89,756	151,924
2040-2044	-	-	-	-	52,688	188,992
2045-2048	-	-	-	-	10,124	140,314
Total	\$ 43,542	\$ 130,195	\$ 4,335	\$ 27,054	\$ 1,080,230	\$ 1,522,415

The City has restricted cash and investments of \$80,525 at December 31, 2009, in accordance with debt covenants.

**CITY OF WHITEWOOD**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2009**

**(5) Long-Term Debt (Concluded)**

Tax Increment Financing District (TID) Liabilities

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

Business-type Activities

The City has pledged future revenues of the Water Fund and Sewer Fund for the retirement of debt issues associated with those funds through the maturity dates listed above. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current Year Principal and Interest	\$47,642	\$19,910
Pledged Revenue	\$194,019	\$162,494

**(6) Interfund Transfers**

Interfund transfers during the year ended December 31, 2009, were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,137	\$ -
Additional Sales Tax Fund	-	155
Economic Development Fund	-	463
Debt Service Fund	-	193
Water Fund	-	1,093
Sewer Fund	-	233
<b>Total Transfers</b>	<b>\$ 2,137</b>	<b>\$ 2,137</b>

Transfers are used to move interest earnings from the fund that earned the revenue to the general fund in accordance with the policy adopted by the City.

**CITY OF WHITEWOOD**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2009**

**(7) Changes in Capital Assets**

A summary of changes in capital assets for year ending December 31 is as follows:

<i>Governmental Activities:</i>	Balance <u>1/1/2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2009</u>
Capital Assets, not being Depreciated:				
Land	\$ 20,200	\$ -	\$ -	\$ 20,200
Total Capital Assets, not being Depreciated	20,200	-	-	20,200
Capital Assets, being Depreciated:				
Buildings	214,000	-	-	214,000
Improvements Other Than Buildings	815,515	96,656	-	912,171
Machinery and Equipment	344,578	12,500	-	357,078
Total Capital Assets, being Depreciated	1,374,093	109,156	-	1,483,249
Less Accumulated Depreciation for:				
Buildings	62,500	4,180	-	66,680
Improvements Other Than Buildings	93,952	19,469	-	113,421
Machinery and Equipment	254,596	20,735	-	275,331
Total Accumulated Depreciation	411,048	44,384	-	455,432
Total Governmental Activities Capital Assets, being Depreciated, Net	963,045	64,772	-	1,027,817
Total Governmental Capital Assets, Net	\$ 983,245	\$ 64,772	\$ -	\$ 1,048,017

Depreciation expense was charged to functions as follows:

Public Works	\$ 22,476
Culture and Recreation	14,845
Public Safety	7,063
Total Depreciation Expense - Governmental	\$ 44,384

**CITY OF WHITEWOOD**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2009**

**(7) Changes in Capital Assets (Continued)**

	Balance 1/1/2009	Additions	Deletions	Balance 12/31/2009
<i>Business-type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 23,253	\$ -	\$ -	\$ 23,253
Construction Work in Progress	-	46,589	-	46,589
Total Capital Assets, not being Depreciated	23,253	46,589	-	69,842
Capital Assets, being Depreciated:				
Buildings	1,510,369	-	-	1,510,369
Improvements Other Than Buildings	3,167,022	-	-	3,167,022
Machinery and Equipment	112,998	-	-	112,998
Total Capital Assets, being Depreciated	4,790,389	-	-	4,790,389
Less Accumulated Depreciation for:				
Buildings	690,065	55,618	-	745,683
Improvements Other Than Buildings	671,085	64,646	-	735,731
Machinery and Equipment	79,993	7,666	-	87,659
Total Accumulated Depreciation	1,441,143	127,930	-	1,569,073
Total Business-type Activities Capital Assets, being Depreciated, Net	3,349,246	(127,930)	-	3,221,316
Total Business-type Capital Assets, Net	\$ 3,372,499	\$ (81,341)	\$ -	\$ 3,291,158

Depreciation expense was charged to functions as follows:

Water	\$ 64,818
Sewer	63,112
Total Depreciation Expense - Business-type	\$ 127,930

Construction Work in Progress as of December 31, 2009, for business-type activities is for engineering costs for the Fillmore Street Trunk Sewer Project, which was funded by the Sewer Fund through current City funds. The City had entered into a contract with an engineer on the project as of year-end totaling \$120,952. The total project costs are estimated to be \$1.2 million funded by various loans and a grant.

## **CITY OF WHITEWOOD**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)** **DECEMBER 31, 2009**

#### **(8) Retirement Plan -- South Dakota Retirement System**

All full-time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute 8 and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2009, 2008, and 2007 were **\$16,103**, \$15,612, and \$13,308, respectively, equal to the required contributions each year.

#### **(9) Joint Venture**

The City participates in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement.

The members of the joint venture, each with 10 percent participation, are as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

The joint venture's governing board is composed of 10 representatives, who are the sheriffs from each county and the police chief for each municipality. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff's Office.

#### **(10) Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2009, the City managed its risks as follows:

## CITY OF WHITEWOOD

### NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2009

#### (10) Risk Management (Continued)

##### Employee Health Insurance:

The City carries health insurance coverage from Medica Choice, a commercial provider. The coverage includes a \$2,000,000 lifetime maximum payment per person. The Municipality pays a monthly premium to provide health insurance coverage for its employees.

The City does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past few years.

##### Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide liability coverage detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for police, fire, and vehicles.

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for 100% of the amount allocated to the cumulative reserve fund. As of December 31, 2009, the City has a vested balance in the cumulative reserve fund of \$12,250.

The City carries a \$2,000 deductible for the police and fire coverage and \$100 to \$250 deductible for the vehicle coverage.

The City does not carry additional liability insurance coverage to pay claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

##### Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

##### Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
<b>Revenue</b>				
<i>Taxes:</i>				
311 General Property Taxes	\$ 163,323	\$ 163,323	\$ 152,798	\$ (10,525)
313 General Sales and Use Taxes	153,000	153,000	171,563	18,563
315 Amusement Taxes	168	168	168	-
319 Penalties and Interest on Delinquent Taxes	200	200	849	649
320 Licenses and Permits	4,500	4,500	4,006	(494)
<i>Intergovernmental Revenue:</i>				
State Shared Revenue:				
335.01 Bank Franchise Tax	500	500	586	86
335.03 Liquor Tax Reversion	5,000	5,000	5,129	129
335.04 Motor Vehicle Licenses (5%)	5,000	5,000	5,912	912
335.1 Local Government Highway and Bridge Fund	9,000	9,000	7,726	(1,274)
335.20 Other	20,000	20,000	22,861	2,861
County Shared Revenue:	-	-		
338.02 County HBR Tax	1,500	1,500	819	(681)
<i>Charges for Goods and Services:</i>				
344 Sanitation	33,000	33,000	37,032	4,032
345 Health	200	200	210	10
346 Culture and Recreation	6,000	6,000	1,749	(4,251)
349 Other	500	500	8,136	7,636
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	400	400	300	(100)
359 Other	-	-	35	35
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	5,000	5,000	1,217	(3,783)
367 Contributions and Donations	-	-	15,246	15,246
368 Liquor Operating Agreement Income	87,400	87,400	95,140	7,740
369 Miscellaneous Revenue	-	-	30,492	30,492
<b>Total Revenue</b>	<b>494,691</b>	<b>494,691</b>	<b>561,974</b>	<b>67,283</b>



CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	48,110	63,210	61,784	1,426
412 Executive	3,975	3,975	3,935	40
413 Elections	600	600	9	591
414 Financial Administration	54,590	54,590	44,262	10,328
419 Other	24,300	24,300	20,503	3,797
<i>Public Safety:</i>				
421 Police	172,680	172,680	162,403	10,277
422 Fire	2,000	2,000	80	1,920
423 Protective Inspection	5,550	5,850	5,497	353
<i>Public Works:</i>				
431 Highways and Streets	63,440	301,440	285,470	15,970
432 Sanitation	33,000	36,000	35,431	569
<i>Culture and Recreation:</i>				
452 Parks	39,290	56,290	52,188	4,102
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	300	300	300	-
470 Debt Service	31,520	31,520	31,518	2
499 Liquor Operating Agreements	73,200	73,200	64,355	8,845
<b>Total Expenditures</b>	<b>552,555</b>	<b>825,955</b>	<b>767,735</b>	<b>58,220</b>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	<b>(57,864)</b>	<b>(331,264)</b>	<b>(205,761)</b>	<b>125,503</b>
<b>Other Financing Sources:</b>				
390 Sale of Capital Assets	-	-	1,637	1,637
511 Transfers In	-	-	2,137	2,137
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>3,774</b>	<b>3,774</b>
<b>Net Change in Fund Balance</b>	<b>(57,864)</b>	<b>(331,264)</b>	<b>(201,987)</b>	<b>129,277</b>
<b>Fund Balance - December 31, 2008</b>	<b>437,146</b>	<b>437,146</b>	<b>437,146</b>	<b>-</b>
<b>Fund Balance - December 31, 2009</b>	<b>\$ 379,282</b>	<b>\$ 105,882</b>	<b>\$ 235,159</b>	<b>\$ 129,277</b>

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE  
LIBRARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
<b>Revenue</b>				
<i>Taxes:</i>				
310 Intergovernmental Revenue	\$ 58,400	\$ 58,400	\$ 61,320	\$ 2,920
<i>Charges for Goods and Services:</i>				
346 Culture and Recreation	-	-	354	354
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	223	223
369 Miscellaneous Revenue:	-	-	95	95
<b>Total Revenue</b>	<b>58,400</b>	<b>58,400</b>	<b>61,992</b>	<b>3,592</b>
<b>Expenditures</b>				
<i>Culture and Recreation:</i>				
455 Library	58,400	61,400	57,788	3,612
<b>Total Expenditures</b>	<b>58,400</b>	<b>61,400</b>	<b>57,788</b>	<b>3,612</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>(3,000)</b>	<b>4,204</b>	<b>7,204</b>
<b>Fund Balance - December 31, 2008</b>	<b>30,312</b>	<b>30,312</b>	<b>30,312</b>	<b>-</b>
<b>Fund Balance - December 31, 2009</b>	<b>\$ 30,312</b>	<b>\$ 27,312</b>	<b>\$ 34,516</b>	<b>\$ 7,204</b>

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE  
ADDITIONAL SALES TAX FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
<b>Revenue</b>				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 7,500	\$ 7,500	\$ 11,222	\$ 3,722
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	155	155
<b>Total Revenue</b>	<b>7,500</b>	<b>7,500</b>	<b>11,377</b>	<b>3,877</b>
<b>Expenditures</b>				
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	8,000	8,000	-	8,000
<b>Total Expenditures</b>	<b>8,000</b>	<b>8,000</b>	<b>-</b>	<b>8,000</b>
<b>Other Financing Uses</b>				
391.1 Transfers Out	-	-	(155)	(155)
<b>Net Change in Fund Balance</b>	<b>(500)</b>	<b>(500)</b>	<b>11,222</b>	<b>11,722</b>
<b>Fund Balance - December 31, 2008</b>	<b>51,659</b>	<b>51,659</b>	<b>51,659</b>	<b>-</b>
<b>Fund Balance - December 31, 2009</b>	<b>\$ 51,159</b>	<b>\$ 51,159</b>	<b>\$ 62,881</b>	<b>\$ 11,722</b>

The accompanying notes to required supplementary information are an integral part of this statement.

## **CITY OF WHITEWOOD**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2009**

#### **(1) Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2009.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, projects funds and debt service funds. No budget was prepared for the Economic Development Fund due to limited activity in 2009.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

## OTHER REPORTS



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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council  
City of Whitewood  
Whitewood, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the **City of Whitewood** (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Auditor's Comments and Closing Conference we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference Part B Findings #2006-5, 2006-6, 2006-7 and 2008-1 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP  
Certified Public Accountants

December 15, 2010

## **CITY OF WHITEWOOD**

### **AUDITOR'S COMMENTS AND CLOSING CONFERENCE DECEMBER 31, 2009**

#### **A. Status of Prior Audit Findings and Recommendations**

##### Finding No. 2006-5: Segregation of Duties

1. All Finance Office employees continue to receive cash, but the City has adopted a policy of only the Finance Officer adjusting customer accounts and, on a quarterly basis, the Assistant Finance Officer generates a report of all customer adjustments and the Council is reviewing this listing per review of the Council minutes. The policy was not adopted until mid-year; therefore, the finding has been repeated and the corrective action plan acknowledges that the policy has been adopted.
2. The Assistant Finance Officer is reviewing the signed checks against the approved claims listing, but the checks are then being returned to the Finance Officer to be mailed. Though, the cancelled checks are being reviewed by a member of the City Council. A member of the City Council did not begin reviewing the cancelled checks until mid-year; therefore, the finding has been repeated and the corrective action plan acknowledges that the review process has been adopted.

##### Finding No. 2006-6: Financial Statement Preparation

The City again in the current year requested the auditor to prepare the financial statements for the City. Therefore, the finding has been repeated in the current year.

##### Finding No. 2006-7: Internal Control over Significant Accounts

The auditor again in the current year proposed material audit adjustments. Therefore, the finding has been repeated in the current year.

##### Finding No. 2008-1: Internal Control Deficiencies

1. The City specified the effective date of a sewer rate change in the ordinance adopted in the current year. Finding has been resolved and is therefore not repeated in the current year.
2. The City has adopted a policy in the current year to contact all customers with restricted meters to verify an accurate usage prior to billing. Finding has been resolved and is therefore not repeated in the current year.
3. The City has adopted a policy in the current year to only change the status of an account to inactive when the balance has been paid in full or turned over to a collection agency. Finding has been resolved and is therefore not repeated in the current year.
4. The City has adopted a policy as noted above regarding adjustments to customer accounts and Council review of such adjustments. Finding has been resolved and is therefore not repeated in the current year.
5. The Finance Officer is allocating employee related expenses consistently with the allocation of the employee's time to the various funds and departments. Finding has been resolved and is therefore not repeated in the current year.
6. The Finance Officer is posting expense to the coverage period. Finding has been resolved and is therefore not repeated in the current year.
7. The Finance Officer is tracking all building permits issued on a monthly basis and issues one check monthly for payment to the building inspector. Finding has been resolved and is therefore not repeated in the current year.
8. The City adopted a policy to compensate public safety employees for hours worked in excess of 40 hours per week at their regular hourly rates. Finding has been resolved and is therefore not repeated in the current year.
9. The City Council has approved allocations of employees time based on estimated amounts of time spent working for the various funds and departments, but the time allocations are not supported by actual time studies. Therefore, the finding is repeated in part in the current year.
10. The subsidiary listing of the customer utility deposits agreed to the general ledger in the current year within \$150, an immaterial amount. Finding has been resolved and is therefore not repeated in the current year.
11. The library still does not keep a detailed record of the immaterial late fee and revenue collected, nor does it record the expenses the cash is being used for. Amount is not considered significant and therefore finding has not been repeated in the current year.



**CITY OF WHITEWOOD**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)  
DECEMBER 31, 2009**

**A. Status of Prior Audit Findings and Recommendations (Continued)**

Finding No. 2008-1: Internal Control Deficiencies (Continued)

12. The Finance Officer is reviewing the health insurance accrual following each premium payment and the accrual was properly cleared out at year-end. Finding has been resolved and is therefore not repeated in the current year.
13. The accounts payable balance is being recorded as a result of a general journal entry based on the amounts paid subsequent to year-end that relate to expenses of the prior year. Finding is no longer applicable and therefore has not been repeated in the current year.

Finding No. 2008-2: Budget Trial Balances and Budgetary Overdraft

The budget trial balance in the current year was within \$500 of the 2009 Appropriation Ordinance plus Supplemental Appropriation. The difference is immaterial. Additionally, there were no budgetary overdrafts noted in the current year as there were supplemental appropriations approved in the current year to cover expenditure overages. Finding has been resolved and is therefore not repeated in the current year.

**B. Current Year Audit Findings and Recommendations**

**Control Deficiencies Considered to be Material Weaknesses**

Finding No. 2006-5: Segregation of Duties

*Conditions:*

1. All Finance Office employees receive cash from customers and all employees are able to post adjustments to customer accounts, which are currently not being reviewed.
2. The Finance Officer is the one entering invoices, preparing the claims listing, preparing the checks, signing and mailing checks. Additionally, no one is reviewing the cancelled checks.

*Criteria and Effect:* As a result of the above, an inadequate segregation of duties exists for the cash receipts and disbursement processes.

*Recommendations:*

1. We recommend that a report including all adjustments to customer accounts be generated by the Assistant Finance Officer and reviewed by a member of the City Council at least monthly.
2. We recommend that the Assistance Finance Officer prepare the claims listing and mail the checks and that the Finance Officer and a member of the City Council review the cancelled checks.

*Response/Corrective Action Plan:* The recommendations were implemented during 2009 and will continue to be enforced.

Finding No. 2006-6: Financial Statement Preparation

*Condition:* We were requested to draft the audited financial statements and related footnote disclosures, as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with municipalities of your size.

*Criteria and Effect:* It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

## **CITY OF WHITEWOOD**

### **AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED) DECEMBER 31, 2009**

#### **B. Current Year Audit Findings and Recommendations (Continued)**

##### **Control Deficiencies Considered to be Material Weaknesses (Continued)**

###### Finding No. 2006-6: Financial Statement Preparation (Continued)

*Recommendation:* As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Response/Corrective Action Plan:* The City is willing to accept the risk associated with this situation.

###### Finding No. 2006 – 7: Internal Control over Significant Accounts

*Condition:* During the course of our engagement, we proposed material audit adjustments that resulted in a \$81,408 increase in net assets. Adjustments included adjusting debt to actual, recording construction in progress, reversing prior year accounts payable and accounts receivable, and recording additional accounts receivable. There were immaterial unrecorded adjusting journal entries that would have resulted in \$2,513 decrease in net assets.

*Criteria and Effect:* These adjustments would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

*Recommendation:* We recommend that the City's operations be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. The balance sheet accounts should be adjusted to actual at year-end.

*Response/Corrective Action Plan:* The City finance officer will be diligent in the year-end closing process to properly adjust balance sheet accounts.

###### Finding No. 2008-1: Internal Control Deficiencies

*Conditions:* Deficiencies were noted in internal accounting control and record keeping resulting in a diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. The following deficiencies in internal accounting control and record keeping were noted:

###### Disbursement Process

1. Of the 14 disbursements tested, we noted four instances of misclassification of expenditures to include (a) three amounts that were expensed which should have been included as construction in progress at year-end based on the type of the expenditures and capitalization policies of the City and (b) one item that was allocated over three different funds but was an expenditure of only one fund.

###### Payroll Process

2. No actual time studies have been periodically performed to substantiate the allocations of employees' time to various funds and/or expense functions.

*Criteria and Effect:* These deficiencies resulted in diminished assurance that transactions were properly executed and recorded.

**CITY OF WHITEWOOD**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)  
DECEMBER 31, 2009**

**B. Current Year Audit Findings and Recommendations (Concluded)**

**Control Deficiencies Considered to be Material Weaknesses (Concluded)**

Finding No. 2008-1: Internal Control Deficiencies (Continued)

*Recommendations:*

1. We recommend that expenses are included in construction in progress if in accordance with the City's capitalization policy and expenses are allocated based on the departments that the expenses impact.
2. We recommend that the allocations of time approved by the City Council be periodically substantiated by actual time studies performed.

*Response/Corrective Action Plans:* The City finance officer will closely monitor expense allocations and annually review construction in progress activity. The City will begin performing time studies at least annually or when an employee's job responsibilities substantially change.